

Farm Taxes

David L. Marrison, Associate Professor



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Session Objectives

- Provide a background on how to manage your farm records for ease in completing Schedule F tax returns.
- Discuss additional federal tax concerns.



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2013

Changes to Federal & Ohio Estate Taxes will help Ohio Farm Families

By David L. Marrison, OSU Associate Professor

One worry which was taken off the minds of many farm families was the threat of the federal estate tax reverting to a \$1 million dollar exemption in 2013. This worry was eliminated with the estate tax provisions of the fiscal cliff legislation titled American Taxpayer Relief Act of 2012 in January 2013. Farmers now can breathe easier with respect to the federal estate tax. To top it off, the Ohio legislature had also voted to repeal the Ohio Estate tax beginning January 1, 2013. This article examines these changes and how they may impact Ohio farm families.

Federal Estate Tax

The American Taxpayer Relief Act of 2012 made the federal estate tax exemption permanent, instead of dropping to the aforementioned \$1 million level. This amount will be indexed for inflation. The IRS has announced the 2013 limits will be \$5,250,000 up from its 2011 level of \$5,125,000. It should be noted that this legislation included the word "permanent." This is significant as many fiscal agreements made by Congress since 2001 have contained a phase out date.

The legislation also allows for portability or the transfer of the unused exemption of a deceased spouse to the surviving spouse. To gain this portability, the executor of an estate must properly file the deceased's estate tax return within nine months. Once the filing is completed, the remaining exemption is transferred to the spouse of the deceased, who can then use it for her or his estate or lifetime giving. Married individuals should file an estate tax return so that their spouses can receive the exemption, no matter their wealth at the time of death.

The rate for taxing amounts in excess of \$5,250,000 has increased from 35% to 40%. But for many, this was an acceptable compromise since it was scheduled to increase to 55% in 2013 (with an exemption of \$1,000,000).

Ohio Estate Tax

<http://ohioagmanager.osu.edu>

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Welcome to the Rural Tax Education website. This website provides farmers and ranchers, other agricultural producers and Extension educators with a source for agriculturally related income and self-employment tax information that is both current and easy to understand.

Tax issues are important for agricultural operations because income and self-employment taxes are a major cost and also because more and more USDA programs are being linked to a producer's federal income tax return.

Hot Topic

In many cases the damage to farms, rural businesses and private homes from extreme weather qualifies as a casualty loss due to the unexpected damage. The Internal Revenue Code has provisions that allow persons affected by such sudden events to apply beneficial tax rules to their circumstances if

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- Pursuant to the requirements of the Internal Revenue Service Circular 230, we inform you that, to the extent any advice relating to a Federal tax issue is contained in this communication, it was not written or intended to be used, and cannot be used, for the purpose of (a) avoiding any tax related penalties that may be imposed on you or any other person under the Internal Revenue Code, or (b) promoting, marketing or recommending to another person any transaction or matter addressed in this communication.
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Schedule
C

Schedule
E

Schedule
F

W2
Income

1040

Schedule A
Deductions



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It all begins with a good record keeping system



- Find a way to keep farm receipts, invoices, cancelled checks and documentation of expense transactions.
- These records should be kept until the period of limitation expires for a tax return. For assessment of tax you owe, this generally is 3 years from the date you filed the return.
- Use Excel, Quicken, Ohio Commercial Farm Account Book, shoe box or custom design your own.



***Design your system to
keep income & expenses
by the lines on the
Schedule F***



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SCHEDULE F
(Form 1040)Department of the Treasury
Internal Revenue Service (99)**Profit or Loss From Farming**

▶ Attach to Form 1040, Form 1040NR, Form 1041, Form 1065, or Form 1065-B.
▶ Information about Schedule F and its separate instructions is at www.irs.gov/schedulef.

OMB No. 1545-0074

2013Attachment
Sequence No. **14**

Name of proprietor

Social security number (SSN)

A Principal crop or activity**B** Enter code from Part IV**C** Accounting method:☐ Cash ☐ Accrual**D** Employer ID number (EIN), (see instr)**E** Did you "materially participate" in the operation of this business during 2013? If "No," see instructions for limit on passive losses ☐ Yes ☐ No**F** Did you make any payments in 2013 that would require you to file Form(s) 1099 (see instructions)? ☐ Yes ☐ No**G** If "Yes," did you or will you file required Forms 1099? ☐ Yes ☐ No**Part I Farm Income—Cash Method.** Complete Parts I and II (Accrual method, Complete Parts II and III, and Part I, line 9.)

1a Sales of livestock and other resale items (see instructions)	1a		
b Cost or other basis of livestock or other items reported on line 1a	1b		
c Subtract line 1b from line 1a		1c	
2 Sales of livestock, produce, grains, and other products you raised		2	
3a Cooperative distributions (Form(s) 1099-PATR)	3a	3b Taxable amount	3b
4a Agricultural program payments (see instructions)	4a	4b Taxable amount	4b
5a Commodity Credit Corporation (CCC) loans reported under election		5a	
b CCC loans forfeited	5b	5c Taxable amount	5c
6 Crop insurance proceeds and federal crop disaster payments (see instructions)			
a Amount received in 2013	6a	6b Taxable amount	6b
c If election to defer to 2014 is attached, check here <input type="checkbox"/>		6d Amount deferred from 2012	6d
7 Custom hire (machine work) income		7	
8 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)		8	
9 Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50 (see instructions)		9	

Part II Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses (see instructions).

10 Car and truck expenses (see instructions). Also attach Form 4562	10	23 Pension and profit-sharing plans	23
11 Chemicals	11	24 Rent or lease (see instructions):	
12 Conservation expenses (see instructions)	12	a Vehicles, machinery, equipment	24a
13 Custom hire (machine work)	13	b Other (land, animals, etc.)	24b
14 Depreciation and section 179 expense (see instructions)	14	25 Repairs and maintenance	25
15 Employee benefit programs other than on line 23	15	26 Seeds and plants	26
16 Feed	16	27 Storage and warehousing	27
17 Fertilizers and lime	17	28 Supplies	28
18 Freight and transportation	18	29 Taxes	29
19 Fuel	19	30 Utilities	30
20 Insurance	20	31 Veterinary, breeding, and medicine	31
21 Interest	21	32 Other expenses (see instructions)	
22 Losses from sales of livestock or other items	22		

Schedule F Income

- Sales of livestock & other resale items
- Sale of livestock, produce, grains and other products you raised
- Crop insurance proceeds
- Custom hire income
- Other farm income



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Schedule F Expenses

- Car & truck expenses
- Chemicals
- Conservation Expenses
- Custom Hire
- Depreciation
- Employee Benefit programs
- Feed
- Fertilizers & Lime



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Schedule F Expenses

- Freight & Trucking
- Gasoline, Fuel & Oil
- Insurance
- Interest
- Hired Labor
- Pension
- Rents or Leases
- Repairs & Maintenance



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Schedule F Expenses

- Seeds & Plants
- Storage & Warehousing
- Supplies
- Taxes
- Utilities
- Vet, breeding & medicine
- Other Expenses



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A Farm Classified by the I.R.S

- The Internal Revenue Service indicates you are in the business of farming if you cultivate, operate, or manage a farm for profit either as an owner or tenant. A farm includes stock, dairy, poultry, fish, and truck farms. It also includes plantations, nurseries, ranches, ranges and orchards.
- Complete Schedule F (Form 1040)

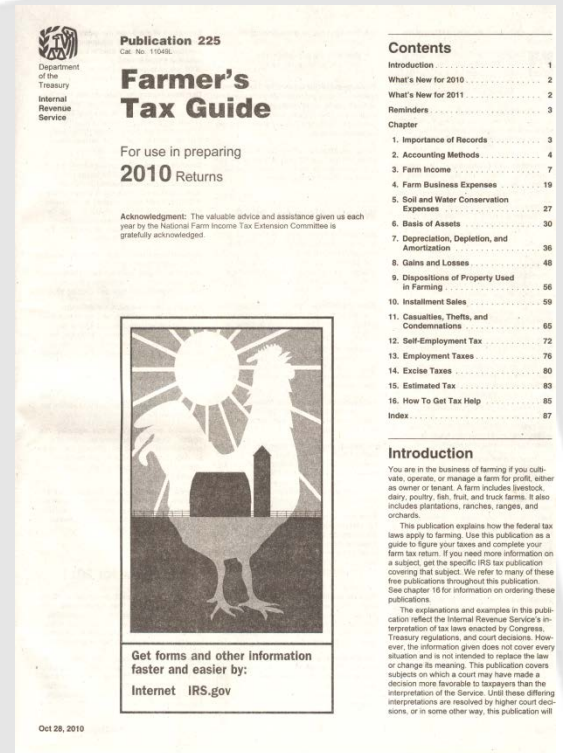


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Schedule F

- Can deduct the current costs of operating your farm. Some deductions include: hired labor, fertilizer and lime, depreciation on farm property, accounting fees, farm fuels and oils, feed, custom hire, trucking, veterinary fees, farm magazines and farm related attorney fees



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Farming for Hobby or Profit?

- Why does it matter?
 - Expenses are deductible beyond income if you are operating for profit.
 - And are not deductible beyond income if you operating as a “hobby” or not-for-profit.
 - I.e., cannot report a loss.
- Ensuring that your operation qualifies as a “for profit” business according to the IRS will reduce your income tax burden.



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Schedule F

- Note Form 1099 reporting question.
- Under reporting Misc. Income is a emphasis point for IRS.
- Required if you paid at least \$600 in rents, services, prizes, medical & health care payments, and other income payments.



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SCHEDULE F
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Social security number (SSN)

A Principal crop or activity

B Enter code from Part IV

C Accounting method:

D Employer ID number (EIN), (see instr)

☐ Cash ☐ AccrualE Did you "materially participate" in the operation of this business during 2013? If "No," see instructions for limit on passive losses ☐ Yes ☐ NoF Did you make any payments in 2013 that would require you to file Form(s) 1099 (see instructions)? ☐ Yes ☐ NoG If "Yes," did you or will you file required Forms 1099? ☐ Yes ☐ No**Part I Farm Income—Cash Method.** Complete Parts I and II (Accrual method, complete Parts II and III, and Part I, line 9.)

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b	Cost or other basis of livestock or other items reported on line 1a	1b			
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2	Sales of livestock, produce, grains, and other products you raised			2	
3a	Cooperative distributions (Form(s) 1099-PATR)	3a		3b	Taxable amount
4a	Agricultural program payments (see instructions)	4a		4b	Taxable amount
5a	Commodity Credit Corporation (CCC) loans reported under election			5a	
b	CCC loans forfeited	5b		5c	Taxable amount
6	Crop insurance proceeds and federal crop disaster payments (see instructions)				
a	Amount received in 2013	6a		6b	Taxable amount
c	If election to defer to 2014 is attached, check here <input type="checkbox"/>		6d	Amount deferred from 2012	6d
7	Custom hire (machine work) income			7	
8	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)			8	
9	Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50 (see instructions)			9	

Part II Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses (see instructions).

10	Car and truck expenses (see instructions). Also attach Form 4562	10		23	Pension and profit-sharing plans	23	
11	Chemicals	11		24	Rent or lease (see instructions):		
12	Conservation expenses (see instructions)	12		a	Vehicles, machinery, equipment	24a	
13	Custom hire (machine work)	13		b	Other (land, animals, etc.)	24b	
14	Depreciation and section 179 expense (see instructions)	14		25	Repairs and maintenance	25	
15	Employee benefit programs other than on line 23	15		26	Seeds and plants	26	
16	Feed	16		27	Storage and warehousing	27	
17	Fertilizers and lime	17		28	Supplies	28	
18	Freight and transportation	18		29	Taxes	29	
19	Gasoline	19		30	Utilities	30	
20	Insurance	20		31	Veterinary, breeding, and medicine	31	
21	Interest	21		32	Other expenses (see instructions)		
22	Losses from sales of livestock or other items	22					

1099 Reporting Requirements

- 1099s were designed to increase tax compliance.
- The 1099 is a series of 17 different forms.
- Due to the recipient by January 31 of each year and the forms need to be sent to the IRS by February 28.
- If a business spends \$600 or more for services from an unincorporated business (s-corps, LLCs, sole proprietors, etc.) during a tax year, the total is reported on a 1099-MISC.



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1099-Misc

9595 ☐ VOID ☐ CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Rents	OMB No. 1545-0115 2014 Form 1099-MISC		Miscellaneous Income Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2014 General Instructions for Certain Information Returns.
		\$			
		2 Royalties			
\$	3 Other income	4 Federal income tax withheld			
\$	\$	\$			
PAYER'S federal identification number	RECIPIENT'S identification number	5 Fishing boat proceeds	6 Medical and health care payments		
		\$	\$		
RECIPIENT'S name		7 Nonemployee compensation	8 Substitute payments in lieu of dividends or interest		
Street address (including apt. no.)		\$	\$		
City or town, state or province, country, and ZIP or foreign postal code		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	10 Crop insurance proceeds		
		11	12		
Account number (see instructions)	2nd TIN not <input type="checkbox"/>	13 Excess golden parachute payments	14 Gross proceeds paid to an attorney		
		\$	\$		
15a Section 409A deferrals	15b Section 409A income	16 State tax withheld	17 State/Payer's state no.	18 State income	
\$	\$	\$	\$	\$	

Form **1099-MISC** Cat. No. 14425J www.irs.gov/form1099misc Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

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Typical 1099s which are issued

- 1099 G – for government payments, unemployment, state/local tax refunds, & taxable grants.
- 1099-MISC – for miscellaneous income.
- 1099-INT – for interest income.
- 1099-DIV- for dividends & distributions.
- 1099-R – for retirement distributions.



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When is a 1099 Issued?

- Farm rental payments which are over \$600 to an individual (combined or individual).
- Crop Insurance proceeds over \$600 or royalties over \$10.
- Payments for services performed valued at \$600 or more. These could include someone painting the barn, hoof trimmers or certified crop consultants.
- If a contractor who is not a dealer in supplies performs a service and also provides the supplies required, the farmer must report the entire payment for supplies and services on the Form 1099 that is prepared for the contractor.



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1099 Reporting Requirements

- What does not need reported:
 - Most payments made to a corporation.
 - Payments made to a government agency or tax-exempt organization.
 - Payments for merchandise.
 - Payments made in connection with the trucking or hauling of livestock, grain or other farm produce.
 - 1099 forms are not required for the purchase of feed, seed, fertilizer or equipment parts.



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Questions

- Another fellow urban farmer has a small two row planter. So he plants your green beans and corn. He supplies the fertilizer and seed. The cost to do this \$625. Do you have to send him a 1099?
- A friend fixes your rotiller. With parts and labor it costs \$250. Do you have to send him a 1099?



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Questions

- When doing silage bagging, they charge for the operation of renting the bagger and bagging the silage, and then they also charge for the bag they provide/sell. The farmer who paid the bill is arguing with the custom silage bagger over whether the cost of the bag goes on the 1099.



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Questions

- Another fellow custom plants for the neighbor and also supplies the seed and planter fertilizer. They are arguing whether the value of the seed and fertilizer must go on the 1099. They planted something like 35 acres for \$15 per acre which is only \$525 and does not require a 1099. BUT, when you add the seed and fertilizer expense you're suddenly talking about a 1099 with around \$5000 reported on it.



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Questions

- In another case the neighbor did some repairs on a tractor. The labor was less than \$600, but IF the parts are included it's way over \$600.



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Questions

- What about the landowner who rents their hay ground for \$50/acre rent for first cutting and then the landowner gets $\frac{1}{2}$ of the 2nd cutting. So if the farmer sells the hay for the landowner after he bales it, does his 1099 now include the rent of \$50/acre plus the value of the hay sold?



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**Request for Taxpayer
Identification Number and Certification**

**Give Form to the
requester. Do not
send to the IRS.**

Print or type See Specific instructions on page 2.	Name (as shown on your income tax return)	
	Business name/disregarded entity name, if different from above	
	Check appropriate box for federal tax classification: <input type="checkbox"/> Individual/sole proprietor <input type="checkbox"/> C Corporation <input type="checkbox"/> S Corporation <input type="checkbox"/> Partnership <input type="checkbox"/> Trust/estate <input type="checkbox"/> Limited liability company. Enter the tax classification (C=C corporation, S=S corporation, P=partnership) ▶ _____ <input type="checkbox"/> Other (see instructions) ▶ _____	Exemptions (see instructions): Exempt payee code (if any) _____ Exemption from FATCA reporting code (if any) _____
	Address (number, street, and apt. or suite no.) City, state, and ZIP code	Requester's name and address (optional)
	List account number(s) here (optional)	

Part I Taxpayer Identification Number (TIN)

Enter your TIN in the appropriate box. The TIN provided must match the name given on the "Name" line to avoid backup withholding. For individuals, this is your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the Part I instructions on page 3. For other entities, it is your employer identification number (EIN). If you do not have a number, see *How to get a TIN* on page 3.

Note. If the account is in more than one name, see the chart on page 4 for guidelines on whose number to enter.

Social security number								
				-			-	

Employer identification number								
				-				

Part II Certification

Under penalties of perjury, I certify that:

1. The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me), and
2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and
3. I am a U.S. citizen or other U.S. person (defined below), and
4. The FATCA code(s) entered on this form (if any) indicating that I am exempt from FATCA reporting is correct.

Certification instructions. You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the certification, but you must provide your correct TIN. See the instructions on page 3.

Sign Here	Signature of U.S. person ▶	Date ▶

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Future developments. The IRS has created a page on IRS.gov for information about Form W-9, at www.irs.gov/w9. Information about any future developments affecting Form W-9 (such as legislation enacted after we release it) will be posted on that page.

Purpose of Form

A person who is required to file an information return with the IRS must obtain your correct taxpayer identification number (TIN) to report, for example, income paid to you, payments made to you in settlement of payment card and third party network transactions, real estate transactions, mortgage interest you paid, acquisition or abandonment of secured property, cancellation of debt, or contributions you made to an IRA.

Use Form W-9 only if you are a U.S. person (including a resident alien), to provide your correct TIN to the person requesting it (the requester) and, when applicable, to:

1. Certify that the TIN you are giving is correct (or you are waiting for a number to be issued),
2. Certify that you are not subject to backup withholding, or
3. Claim exemption from backup withholding if you are a U.S. exempt payee. If

withholding tax on foreign partners' share of effectively connected income, and

4. Certify that FATCA code(s) entered on this form (if any) indicating that you are exempt from the FATCA reporting, is correct.

Note. If you are a U.S. person and a requester gives you a form other than Form W-9 to request your TIN, you must use the requester's form if it is substantially similar to this Form W-9.

Definition of a U.S. person. For federal tax purposes, you are considered a U.S. person if you are:

- An individual who is a U.S. citizen or U.S. resident alien,
- A partnership, corporation, company, or association created or organized in the United States or under the laws of the United States,
- An estate (other than a foreign estate), or
- A domestic trust (as defined in Regulations section 301.7701-7).

Special rules for partnerships. Partnerships that conduct a trade or business in the United States are generally required to pay a withholding tax under section 1446 on any foreign partners' share of effectively connected taxable income from such business. Further, in certain cases where a Form W-9 has not been received, the rules under section 1446 require a partnership to presume that a partner is a foreign person, and pay the section 1446 withholding tax. Therefore, if you are a U.S. person that is a partner in a partnership conducting a trade or business in the United States, provide Form W-9 to the partnership to establish your U.S. status

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Reporting Requirements

- Payments shown on Form 1099-MISC are generally not subject to FICA. If the party receiving payment does not provide the farmer with a valid social security number, the farmer is required to withhold 28% of the payment in the form of “backup withholding” for income tax.



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Depreciation

- Develop machinery & equipment depreciation schedules to recapture their cost.
- Example: fruit trees, single purpose ag structures & greenhouses are depreciated over 10 years. Farm machinery & equipment over 7 years (MACRS).
- Can use Section 179 as a form of accelerated depreciation. 2015 limit is \$25,000 (unless Congress increases back to 2014 limit of \$500,000).



Special Bonus Depreciation (AFYD)

- Was set to be eliminated in 2013 with a 50% limit in 2012.
- Fiscal cliff legislation extended the 50% depreciation through the end of 2013.
- Eliminated in 2014 but brought back in December for 2014 (only)
- New Equipment.



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Section 179-Equipment Expensing

- Farmers have been aggressive in using AFYD and I.R.C. § 179 to purchase equipment.
- I.R.C. § 179 deduction was \$500,000 in 2013 and dropped to \$25,000 for 2014 with \$200,000 phase-out. Late year legislation returned to \$500,000 with \$2 million phase-out for 2014. Back to \$25,000 in 2015.



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Farm or nonfarm business income?

- Farming: Significant involvement in growing, raising, harvesting agricultural product
- Excludes most processing of crops



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**SCHEDULE C
(Form 1040)**Department of the Treasury
Internal Revenue Service (99)**Profit or Loss From Business**

(Sole Proprietorship)

► For information on Schedule C and its instructions, go to www.irs.gov/schedulec.
► Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.

OMB No. 1545-0074

2013Attachment
Sequence No. **09**

Name of proprietor

Social security number (SSN)

A Principal business or profession, including product or service (see instructions)**B** Enter code from instructions**C** Business name. If no separate business name, leave blank.**D** Employer ID number (EIN), (see instr.)**E** Business address (including suite or room no.) ►

City, town or post office, state, and ZIP code

F Accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ►**G** Did you "materially participate" in the operation of this business during 2013? If "No," see instructions for limit on losses ☐ Yes ☐ No**H** If you started or acquired this business during 2013, check here ☐ Yes ☐ No**I** Did you make any payments in 2013 that would require you to file Form(s) 1099? (see instructions) ☐ Yes ☐ No**J** If "Yes," did you or will you file required Forms 1099? ☐ Yes ☐ No**Part I Income**

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked. <input type="checkbox"/>	1	
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42)	4	
5	Gross profit. Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	Gross income. Add lines 5 and 6	7	

Part II Expenses

Enter expenses for business use of your home only on line 30.

8	Advertising	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions)	9		19	Pension and profit-sharing plans	19	
10	Commissions and fees	10		20	Rent or lease (see instructions):		
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a	
12	Depletion	12		b	Other business property	20b	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		21	Repairs and maintenance	21	
14	Employee benefit programs (other than on line 19)	14		22	Supplies (not included in Part III)	22	
15	Insurance (other than health)	15		23	Taxes and licenses	23	
16	Interest:			24	Travel, meals, and entertainment:		
a	Mortgage (paid to banks, etc.)	16a		a	Travel	24a	
b	Other	16b		b	Deductible meals and entertainment (see instructions)	24b	
17	Legal and professional services	17		25	Utilities	25	
28	Total expenses before expenses for business use of home. Add lines 8 through 27a	28		26	Wages (less employment credits)	26	
29	Tentative profit or (loss). Subtract line 28 from line 7	29		27a	Other expenses (from line 48)	27a	
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). Simplified method filers only: enter the total square footage of: (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30		b	Reserved for future use	27b	
31	Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Form 1040, line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3. • If a loss, you must go to line 32.	31					
32	If you have a loss, check the box that describes your investment in this activity (see instructions). • If you checked 32a, enter the loss on both Form 1040, line 12, (or Form 1040NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3. • If you checked 32b, you must attach Form 6199. Your loss may be limited.						

32a ☐ All investment is at risk.
32b ☐ Some investment is not at risk.

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Processing of commodities

- Farming includes “handling, shearing, packing, grading, storing on a farm any agricultural or horticulture commodity in its unmanufactured state.”
- Farm owner or operator must produce > 50% of the commodity.
- End point is considered when commodity is prepared for its initial sale.
- Sole proprietor’s further activities reported on Schedule C.
- Example: Crushing grapes marketing juice or making not farming activities.



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Figure 16.4 On-farm Processing Activities That Qualify as Farming

Commodity	Operation	Authority
Fresh fruits and vegetables	Washing, grading, packing, and cooling	Treas. Reg. §§ 1.263A-4(a)(4)(II) and 1.448-1T(d)(2)
Fresh fruits and vegetables	Storing on a farm of any agricultural or horticultural commodity in its unmanufactured state	I.R.C. § 6420(c)(3)(B) and Treas. Reg. § 48.6420-4(e)(1)
U-pick fruits and vegetables	Harvest performed by customer as part of purchase "No charge for consumption during harvest"	
Cotton	Ginning and baling	Treas. Reg. § 48.6420-4(d)
Grains (corn, wheat, rice, etc.)	Drying and storage	Treas. Reg. § 48.6420-4(d)
Honey	Processing honey for sale	
Maple sap	Harvest of maple sap is farming Processing sap into maple syrup or sugar is not farming	Treas. Reg. § 48.6420-4(e)(2)
Mint oil	Extraction of oil from plant	On-site distilling is normal part of mint harvest
Oleoresin	Harvesting of oleoresin from a living tree is farming Processing of oleoresin into gum spirits of turpentine or gum resin is not farming	Treas. Reg. § 48.6420-4(e)(2)
Tobacco	Drying and stripping—form varies by type of tobacco	Treas. Reg. § 48.6420-4(d)
Wool	Shearing	I.R.C. §§ 464(e)(1) and 6420(c)(3)

Sales at Farmers Markets

- Report sales of produce on Schedule F; report sales of processed items on Schedule C
- Vendor may supplement own produce with items purchased from another farmer.
- Value of swapped items treated as sale and purchase for resale; net effect is a wash.
- For produce donated to charities the deduction is limited to basis in donated crops; basis in raised crops is usually zero.



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Schedule F Basics

- Bartering is income which should be reported.
- Cost of purchasing or raising produce or livestock consumed by you or family is not deductible.
- See Qualified Farmer (2/3 test) definition in Chapter 15. Deals with paying estimated tax. If you are a qualified farmer you do not need to pay estimated taxes. However, if you do not pay estimated taxes then you need to file and pay taxes by March 1.

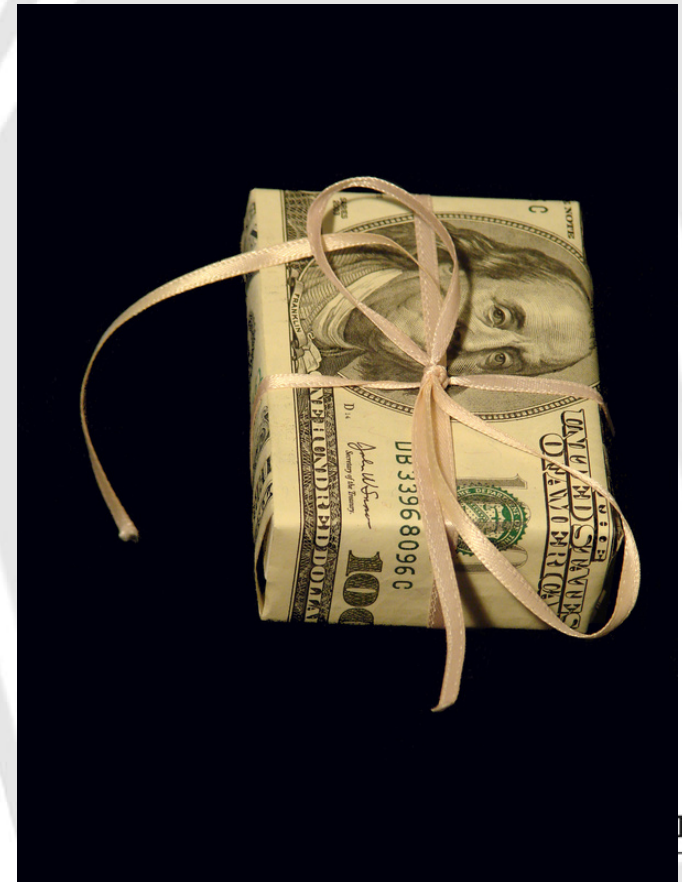


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Other Annual Adjustments

- Annual Exclusion for gifts remains at \$14,000 per person.
- Standard mileage rate deduction was \$0.56 per mile in 2014 and \$0.575 in 2015.



Business Tax Deductions

- Start-up- can deduct business start up fees (\$5,000).
- Home office-can deduct home office if you are using for the business. Includes direct, indirect and depreciation costs. Understand the ramifications of selling your home and the tax consequences such as depreciation recapture that result from using this deduction.
- Business Travel- can deduct business travel.
- Business Use of Vehicle-standard mileage or actual expense method.



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Deductible Travel Expenses

- Travel by airplane, train, bus, or car between your home and your business destination.
- Using your car while at your business destination.
- Fares for taxis or other types of transportation between the airport or train station and your hotel.
- Meals and lodging.
- Tips you pay for services related to any of these expenses.
- Dry cleaning and laundry.
- Business calls while on your business trip.



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Self-Employment Tax

- Schedule F income is subject to Self Employment Tax
- **Tax rates.** SE Tax is 15.3% (6.2% employee portion and 6.2% employer portion + 2.9% Medicare) on
- **Maximum net earnings.** The maximum net self-employment earnings subject to the social security part (12.4%) of the self-employment tax is \$113,700 for 2013. There is no maximum limit on earnings subject to the Medicare part (2.9%).
- **Medicare surtax.** Tax of 0.9% applies to the net income in excess of \$200,000 for singles and \$250,000 for couples filing jointly.



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Reminder on Estate Tax Changes



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Federal Estate & Gift Tax

- The fiscal cliff was good for estate planning.
- Sets permanent limit indexed for inflation.
- Limit in 2014 is \$5,340,000 and 2015 limit will be \$5,430,000.
- Excess taxed at maximum of 40%.
- Includes portability.to spouse.



Other Federal Taxes

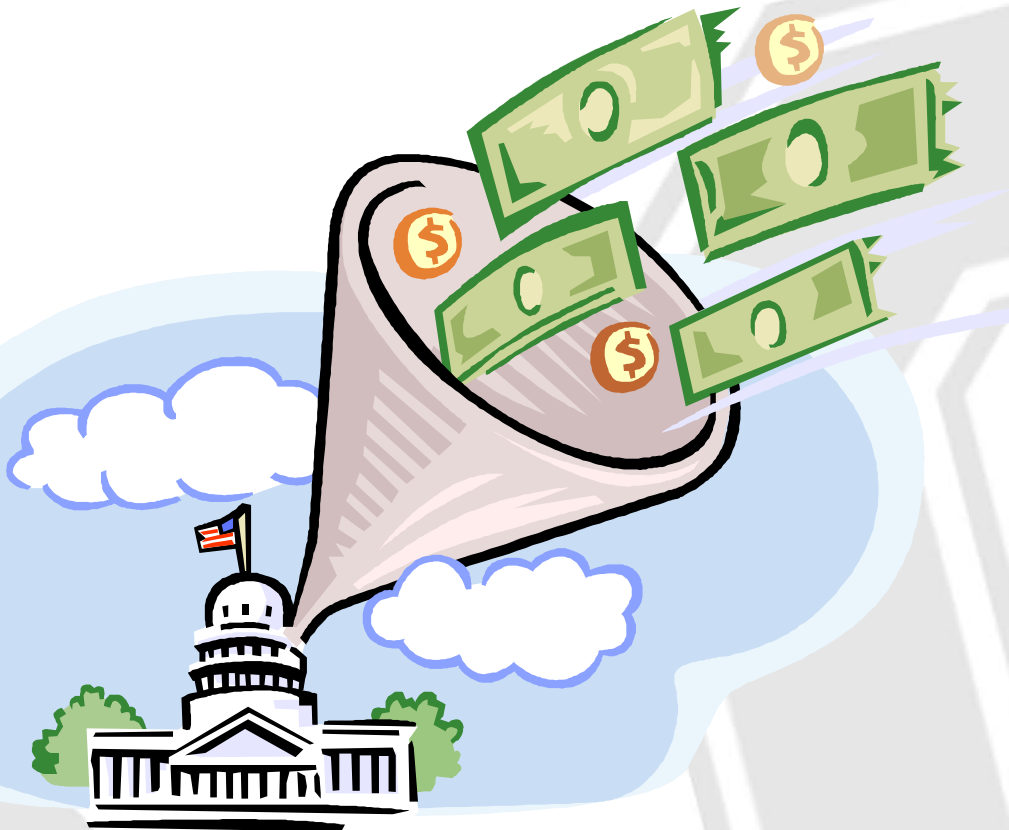
- Federal Income Tax Brackets
- Income Averaging for Farmers
- Schedule C (Not F)
- Capital Gains
- NIIT
- Medicare Surtax



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Income Tax Brackets



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Federal Income Tax Rates

2014 (Married Filing Jointly)

Income Level	Tax Rate
<\$18,150	10%
\$18,150 - \$73,800	15%
\$73,800 - \$148,850	25%
\$148,850 - \$226,850	28%
\$226,850 - \$405,100	33%
\$405,100 - \$457,600	35%
> \$457,600	39.6%

Federal Income Tax Rates

2015 (Married Filing Jointly)

Income Level	Tax Rate
<\$18,450	10%
\$18,450 - \$74,900	15%
\$74,900 - \$151,200	25%
\$151,200 - \$230,450	28%
\$230,450 - \$411,500	33%
\$411,500 - \$464,850	35%
> \$464,850	39.6%

Federal Income Tax Rates

2014 (Single)

Income Level	Tax Rate
<\$9,075	10%
\$9,075 - \$36,900	15%
\$36,900 - \$89,350	25%
\$89,350 - \$186,350	28%
\$186,350 - \$405,100	33%
\$405,100 - \$406,750	35%
> \$406,750	39.6%

Federal Income Tax Rates

2015 (Single)

Income Level	Tax Rate
<\$9,225	10%
\$9,225 - \$37,450	15%
\$37,450 - \$90,750	25%
\$90,750 - \$189,300	28%
\$189,300 - \$411,500	33%
\$411,500 - \$413,200	35%
> \$413,200	39.6%

Capital Gains

- Capital gains rates were adjusted in fiscal cliff legislation.
- 0% applies to capital gains income if a person is in the 10% and 15% tax brackets.
- 15% applies to capital gains income if a person is in the 25%, 28%, 33%, or 35% tax brackets.
- 20% applies to capital gain income if a person is in the 39.6% tax bracket.

Net Investment Income Tax

- A new 3.8% surtax began January 1, 2013 on investment income for \$ amount over \$200,000 (single) or \$250,000 (MFJ).
- 3.8% tax on smaller of net investment income or excess of adjusted gross income.
- Investment income includes: interest, dividends, capital gains, annuities, royalties, passive rental income.

Additional Medicare Surtax

- An additional 0.9% medicare tax was added in 2013, if over the threshold.
- Threshold amounts are \$200,000 (single) or \$250,000 (MFJ).
- No employer match required to the amount owed by the employee.



Strategies for Year End Tax Management

Farmers hate
paying taxes,
so what can
we do?



Major Tax Planning Methods

- Prepaid expenses
- Deferred payment contracts
- AFYD and I.R.C. § 179
- Postpone crop insurance
- Gain on weather-related sales

Prepaid Expenses

- Purchase inputs before close of year.
 - Payment, not deposit
 - Business purpose
 - Income not materially distorted
- Deduction limited to 50% of other farm expenses, unless qualified taxpayer.

Deferred Payment Contract

- Installment sale can defer income from crop or livestock sales until year payment is made
- Need to avoid constructive receipt

Income Averaging

- Income averaging rules in IRC § 1301 is a very powerful tool for farmers.
- Allows farmers to take advantage of lower tax rates from 3 prior years.
- Does not reduce SE tax; Medicare Surtax, NIIT; or phase outs of personal exemptions & itemized deductions.

Using Income Averaging to Overcome New Taxes

Higher effective rate on high income

- 39.6% bracket for ordinary income
- 20% bracket for capital gain
- 3.8% net investment income tax
- 0.9% Medicare surtax
- Phase-out of personal exemptions deduction and itemized deductions

Questions?



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